

“The Amazing Hidden Powers of Japanese Candlesticks”

A Candlestick Forum publication. This information is the accumulation of more than fifteen years of hands-on experience. The purpose of a Candlestick Forum E-Book publication is to advance the knowledge level of candlesticks and to direct investors past the pitfalls involved with learning a new investment method.

Japanese Candlestick Signals

(Using Candlesticks to keep from getting Enron'd !)

Have you ever wondered why a few people make fortunes in the stock market and the majority of investors don't? Are you frustrated with poor brokerage research results? Have you paid good money for programs that promised great results but have been dismal disappointments? Within 10 days, you could be amassing your own fortune. How? By learning the most successful and proven investment method in history. **JAPANESE CANDLESTICKS!**

Why are the Japanese Candlestick signals influencing investor's profits in the twenty-first century? Simple. The results of the signals have produced inarguable profits. Not moderate profits, but profits that have made Japanese rice traders radically wealthy, wealthy to the point that they became legends in their own time. This methodology, having its beginning in the 1600's, has become an important technical trading method on Wall Street and the U.S. commodities markets over the past couple of decades. However, its immergence has been slow in developing. This is due mainly to the stigmas that have been attached to the Candlestick method. First, it is perceived to be difficult to learn. This assumption stems from the numerous signals presented from the centuries of analysis. Secondly, it is perceived that it takes a huge amount of time to learn how to use the signals proficiently.

Both of these misconceptions have kept the vast majority of investors from spending time and effort to learn how the signals work. The Candlestick Forum has become a major factor in dispelling those misconceptions. To date, incomplete learning procedures have been the culprit for producing conflicting evidence as to the validity of the signals. Investors that have not learned **all** the parameters for making a signal an effective trading tool have easily become discouraged when they have traded positions that were not true signals. Not all formations form signals. Not all signals are true signals. The Candlestick Forum

was established to decipher correct signals from so-called “false signals.” Over fifteen years of hands-on experience has provided effective methods for recognizing and identifying the false signals.

Being able to properly identify the **true** reversal signals creates a very powerful investment platform. The elements incorporated into the formation of the signals have overwhelming implications. They bring the analysis of a price trend down to the bare basics. **The formation of the signals is the cumulative decision making results of all the investors that partook in the trading of that entity during a particular time frame.** Reread this past statement. The assertion presented in this statement is the most powerful thought process for any analytical forecasting function. This is the grass root of what investing is all about. What is the investment psychology of investors? How does the investment decision-making processes affect the current direction of the current trend? Hundreds of years of visual analysis have identified which formations are precluding or have changed the direction of a price move. You now have the benefit of being able to learn the formations in a fast and easy process.

Proven Results

The important thing to remember about Japanese Candlestick signals is that this analysis was not done as a successful back test of a proposed formula. The signals were developed through centuries of actual trades. The gains or losses were the results of live positions.

As the well known quote states, “ You can fool some of the people some of the time, but you can’t fool all the people all of the time.” The signals reflect that sentiment. A signal utilized for hundreds of years is the result of successful, consistent, profitable trading or else it would not be in existence today. The key word is consistent. The use of computers has provided a medium for testing viable trading concepts. If an investor comes up with a reasonable trading method,

it can be back tested for a period of time to see what the results would have been. The trading method may show good results for the past X number of years. However, it may not work effectively in the current market conditions because those conditions never occurred during the back-tested period. That phenomena is not a Candlestick concern. Year after year, decade after decade, century after century, the formations have worked extremely well in all conditions. This research, done without the benefit of computers, is the result of traders relying on the actual witnessing of trade results. Trade results that warranted committing funds into the next formation witnessed continued the success process right up to today.

Candlestick signals pinpoint reversals in trends. Unlike most other technical trading programs, where visual or formula based projection “could” result in a possible change, the Candlestick signal informs the investor as to what the investors are doing **right now**. This has very profitable ramifications. On its own, direction can be evaluated. The probabilities of a directional change can be accurately calculated. However, the signal formations, when properly deciphered, indicate the state of investor sentiment NOW. To add more strength to a trend’s directional probability, overlaying the Candlestick formations onto Western conventional technical analysis gives stronger verification that the trend is likely to move in a specific direction.

Having the ability to pinpoint a change of direction through the use of a Candlestick signal has powerful ramifications. All other technical methods become useful supplemental tools. If the cumulative investment decisions are indicating clear buying patterns, and this is occurring at an obvious trend-line support area, the buying analysis is further strengthened. Support lines, watched by a large number of technical investors, will create a self-fulfilling result. The more investors there are watching the same potential support level, the more buying comes in when they have seen the support line hold. They become the

additional fuel for profits for the Japanese Candlestick investor who has established a position upon the first signs of a buy formation.

Japanese Candlestick trading incorporates the thought processes of the majority of the investors in the markets. Those thought processes have not changed over the centuries and will not change over the next century. Fortunately for the Candlestick investor, there is one major element that will always allow them to extract huge profits from the market. The Candlestick signals are the visual depiction of investors' greatest weakness – EMOTION. Somebody is panic selling at the bottom. Somebody is exuberantly buying at the top.

Making money in investment markets has very little to do with how well companies are doing. Making profits in the markets is based upon what investors “perceive” a company is doing. This is a truism that eludes most investors. The novice investor questions why a stock price goes down when it reports good news. The method for maximizing profits is to recognize when the buying starts in anticipation of the results of good news being reported in the future. You can extract huge profits using Candlestick signals to spot opportunities.

The Benefits from the Candlestick System

As mentioned earlier, Japanese Candlestick signals possess one major attribute not present in other technical systems. **The signals are created by the CHANGE in investor sentiment.** This point is the crux of the success of Candlestick analysis. Again, to emphasize the importance of what you have just read. **THE SIGNALS ARE CREATED BY THE CHANGE IN INVESTOR SENTIMENT.** Understanding this truism will make it easy for your investment psychology to become acclimated to this successful trading discipline.

The secrets of the effectiveness of the signals can be learned in a fast and easy process. You, as an investor, do not need to be knowledgeable about technical charting to take immediate advantage of the signals. A signal's graphical formation makes it visibly easy to identify reversals. A Candlestick formation provides a visual graphic of investor psychology during a specific time period. Investment strategies can be structured, of course, for whatever time period is suited for your trading style: minute to minute or monthly. Applicable trading instruments include any vehicle that has the key elements of investor **fear and greed**. You gain tremendous profit potential by taking advantage of human weakness in the markets.

The graphics of a Candlestick chart have greater appeal than Western Charts (bar charts). The amount of data displayed is exactly the same. But the ease of visual interpretation is dramatically different. Price movement is the result of investor sentiment. The immediate representative depiction is visually in front of you. Recognizing the change in investor sentiment is made easier when the graphics are clear and easy to understand. Your profits will multiply by utilizing the added information depicted in the signals.

Consider what the signals actually are. Thousand and thousand of hours of Japanese rice traders piecing the formations together. They broke the trading period down to how a price was opening, what its high and low was during the day. And how the price closed. Each formation was scrutinized trade after trade, year after year, century after century. Every possible formation was evaluated. And the results were patterns that produced profits, not a reasonable certainty of profits, but the evidence of profits so pronounced that they have remained in existence for centuries. This fact alone is the most powerful testimony that the signals perform. To benefit from this information requires only learning how to identify and maximize its potential.

Easy to See

Candlestick signals have a major beneficial aspect. They are visually easy to see. This is an important element for any technical method. A reversal signal should not be an interpretive exercise. They should be clear and uncontroversial. The Japanese Candlestick formations depict an obvious change in a trend. The vital word is “obvious”. The expediency of finding the best possible trades requires being able to recognize those signals. The signals need to be visually distinct. Fortunately, the graphic picture that signals convey make it easy to make profitable determinations. As seen in the Eclipsys Corp. chart, the buy signal and the sell signal are apparent. In simple terms, this is the effective result of having well proven signals.



Once you become accustomed to the Candlestick charts, all other charting methods will become diminished in effectiveness. That is not to say that other techniques cannot be used as "alert" functions. Candlestick signals, incorporated

with those charts, fine-tune the reversal identification process. Watch your profits soar by simply combining Candlesticks with basic technical methods.

Probabilities

Wouldn't you like to be relatively positive that you are going to make money on the majority of your trades? Are you tired of "hoping" that your next trade will be profitable? Candlestick signals alleviate those doubts. The signals are still in existence today because of one vital factor. The probabilities of identifying profitable trades are extremely high. Probabilities! That is what is dramatically put in the investors favor when using the Candlestick signals. Hundreds of years of observation result in creating extremely favorable probabilities. You are the beneficiary of centuries of observation. The PROBABILITIES are in your favor.

A Successful History

Knowing the history of the formations inevitably imparts confidence in the technique. Japanese rice traders developed the system over a four hundred-year period. Logic dictates that a system that has persevered that long must have credible features. The history of the rice traders who developed the signals will reinforce that assumption. With its four hundred years of development, the Candlestick methodology got its major refinement in the mid-1700's.

Kosaku Kato (1716 - 1803) was born in the city of Sakata, now Tamagata Prefecture, during the Tokugawa Period (Eighth Shogunate). His successful interpretation of the Candlestick formations made him the most feared and respected rice trader in Japan. Adopted by the Honma family, he became known as Sokuta Honma. The wealth he produced for his family became legendary.

Songs were written about the Honma family's untouchable wealth. "Nobody could ever be a Honma, but everybody would like to be at least a lord." Their mastery of the rice market price movements was popularized in verses such as: "When it shines in Sakata (the growing region) it's cloudy in Dojima." Translated, when there is good weather in Sakata, the prices fall on the Dojima exchange. "And in Edo (Tokyo), it rains." Rice prices plummet there.

Consult the Market About the Market

When analyzing the market, attention should be paid to the market movement itself. One has to follow the market movement like the cat that wishes to catch the mouse. Charts reflect the past. Theoretically, it is not possible to predict the market's future. Yet, analyzing identifiable patterns, as a prelude to a "high probability" result, is as close as an investor can get. Repeating patterns are not 100% accurate, but visually proven probabilities can adjust the odds immensely in your favor. Identification of certain events provides a basis for an occurrence happening. Otherwise, truisms such as "Red skies at night, sailor's delight" would not be in existence. Hundreds of years of weather observations have produced a reliable result the next day. The same observations have made Candlestick signals highly accurate.

Bottom line, the name Sokyu Honma, in Japan, through Candlestick recognition is associated with successful investing, as Bill Gates' name is associated with successful computer program marketing in the United States. Learning to "consult" the market, as Honma did hundred of years ago, will greatly enhance your investing probabilities in the markets today.

Candlestick Charts versus Bar charts

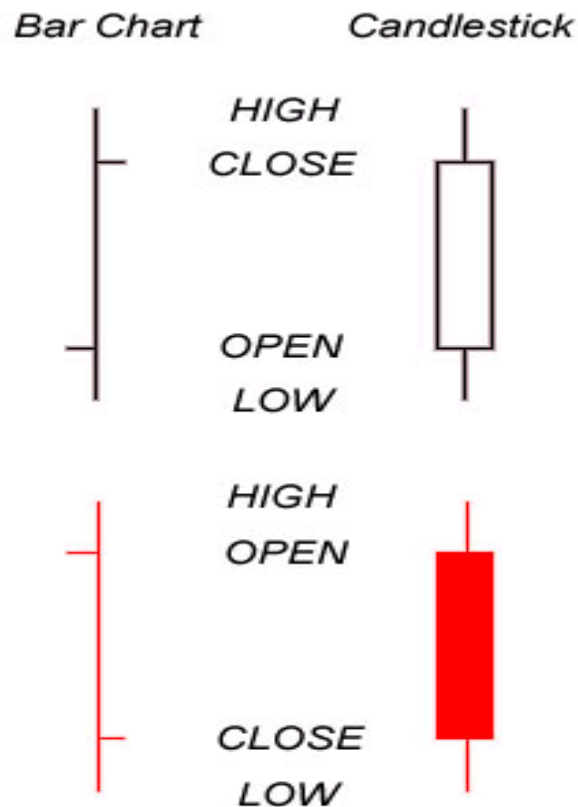
Keep in mind, the use of Candlestick charts and bar charts can be utilized for any time period. However, after using the Candlestick charts, you will find that bar

charts do not provide the same clarity. Candlestick patterns allow the investor to identify pertinent information in a relatively fast and unencumbered manner.

Forming the Candlesticks

Horizontal lines represent the open and the close. Once both lines are added to the chart, they are boxed. This box is called the **BODY**. If the close is higher than the open, the body is white or empty. If the close is lower than the open, the body is black or filled. Keep in mind, this does not necessarily mean that a white body represents that the price was up for the day or that a black body represents that the price was down for the day. The body color only illustrates where the close was as compared to the open.

The contrasting colors of the bodies provide rapid visual interpretations. A declining column of dark candles is **obviously** interrupted when a white candle appears. This attracts the attention of the eye immediately. This is something that would not occur when viewing conventional bar charts.



The lines extending from the body represent the extremes of the price movement during the day. These are known as the **SHADOWS**. The shadow above the body is known as the upper shadow. In some Japanese analytical circles the upper shadow is also described as the **HAIR**. The shadow below the body is known as the lower shadow or the **TAIL**. The length of the shadows has important implications to the strength of reversal moves.

The bodies with shadows look very much like candles. Thus the name Candlesticks. But don't let the unsophisticated name throw you. The information provided by the formations puts the Candlestick analyst giant leaps ahead of other technical analysts.

Improve Investment Skills Permanently

Japanese Candlestick analysis will improve your investment skills **permanently**. Having the foresight of how investors react to price movements provides the Candlestick analyst with powerful advantages. First, the knowledge of what bottoming signals will look like keeps one from grabbing for the “falling knife”. You will acquire patience while waiting for a signal. Secondly, Candlestick investors now have an investment platform for buying at the bottom and selling at the top. Knowing that bottoming signals occur with a high degree of accuracy takes the emotion out of getting into or out of a position. Looking for signals to occur at the low end of a trading range creates an unemotional discipline. The risk factors are greatly diminished when buying at the bottoms and selling at the tops. Yet, this practice is not taught at any institution of learning.

The “experience” most investors obtain to become reasonably proficient investors unfortunately comes from the school of hard knocks. Apparently, some people get a handle on good discipline much easier than others do. Otherwise, **everybody** would be doing well in the markets. But for those that require a stronger framework for establishing a good investment regimen, the Japanese Candlestick

method has those qualities. Not only does the methodology direct you to buy at the bottoms and sell at the tops, it gives you the background psychology that makes you understand **why** a reversal is occurring. Buying the "hot tips" becomes much more controlled by being able to analyze when the first buying waves came into the "hot stock's" most recent move.

Becoming a Profitable Candlestick Investor

Most investors do not have an investment plan. This is simple to confirm. Ask friends and associates how they find their investment picks. The answers will range across the board. A tip from a friend of a friend. An article about a company in a magazine. A news clip about a firm or product on CNBC. The number one stock pick from an investment newsletter. On top of it all, it is usually a combination of these and many other mishmash approaches. The performance is inconsistent. To make matters worse, if the performance is decent, there usually is no way to measure the successful sources. Candlestick signals provide you with strategies that will dramatically increase your investment returns. You will be exposed to techniques that teach you how to remember and utilize the signals, quickly.

The Japanese Candlestick methodology focuses on how to maximize profits. This includes trading strategies that minimize the downside risk. You will learn how to close out losing trades with minimal losses and no emotional attachment. At the same time, profit maximization procedures and philosophies are incorporated into closing out profitable trades.

Exploiting Reason while Eliminating Emotions

Japanese Candlesticks perform a dual function. Investor fear and greed create the signals. Knowing this information creates a frame of mind that now can anticipate how formations might be developing. What is the glib response to the question "How do you make money in the stock market?" **Buy low and sell high!** That simple. Yet, reality reveals over and over that John Q. Public is going to buy a stock AFTER it has already made a major move upwards. This emotion is based on GREED. The evidence is witnessed as the daily price range expands and the volume increases at the top of up moves. Conversely, rational investment decisions are overpowered by **FEAR** when prices reach the lower end of their decline. When prices are getting lower, common sense says to be buying. However the same expansion of daily volatility and volume can be seen as everybody gets panicky. It is at these stages that the Candlestick signals will allow you to make inordinate profits. Observing uniquely accurate Candlestick signals will provide you with a much more positive investment frame of mind. Doubt and fear will give way to confidence. Knowing that a signal creates a high probability occurrence allows you to make rational, not emotional decisions about your portfolio.

Built In Logic

The logic conveyed by the Candlestick formations is simple. Consider the common investor psychology when a stock has been going down steadily for the past eight trading days. Each day the stock price goes lower and lower. Finally, everybody just wants out of the stock at any price. They can't stand it anymore. Fear now takes control. The stock price gaps down the next day on big volume. Investors are finally relieved of the pain and fear of holding that stock any longer. The gap or what the Japanese call a "window" becomes the signal alert. Logic implies that the price is now in a panic selling stage, it is time to buy. The signals

that can be created from the presence of the gap create a low-risk, high profit situation. Your knowledge of these formations will make your money grow.

PERCEPTION - The Major Investment Truism

One truism about making money in any market is that **PERCEPTION** overpowers reality. Even during periods of great economic growth, holding on to "fundamentally" sound companies may not make you any richer. If investors perceive that better profits can be made somewhere else, that is where the money is going to go. The evidence of this is apparent in the titles of "Old Economy" and "New Economy". The returns from holding a fundamentally sound company over the past few years have paled to the returns produced by owning a "New Economy" stock, at least prior to the bursting of the technology stock bubble in March, 2000. It may be true that you make more money by holding a good fundamentally sound stock for the long term provided that the only alternative is to hold non-fundamentally sound stocks for the same time frame.

If your intent is to maximize portfolio growth, the logical method of investing includes buying what has the most upside potential today. That brings us back to investor perception. The Candlestick signals identify where investor funds are going today, this week, this month. The Candlestick signals pinpoint the turns in investor sentiment. Using this knowledge produces trading strategies that minimize downside and maximize upside probabilities.

Buy on the Rumor

How often have we witnessed a company announcing good earnings or a beneficial contract or disclosing information that would appear to be advantageous for the stock price? Yet, the price of the stock immediately declines.

"Buy the rumor, sell the news" is a well-repeated Wall Street adage. A major advantage of identifying Candlestick signals eliminates the need for investors to maintain expansive information networks. Unless you are positioned in the "in-the-know" Wall Street crowd, how can you possibly know the scuttlebutt on each and every company followed in the investment arena?

A Candlestick buy signal provides you with the knowledge of when the buyers are stepping into a stock. You do not need to know why that is occurring. The only fact that should concern an investor is what stocks are going up and what stocks are going down. If there is a rumor that implies that a company's earnings are going to be good or that they are going to be bought out, who cares? A Candlestick buy signal represents the probability that this stock position is going to make you money. Your identification of the buying in a particular stock presents a favorable probability of being in positions that eventually announce good "surprise" news. Reality says that if something good is happening to a company, the people "in-the-know" will be accumulating the stock before the announcement. The Candlestick signals identify that action.

Buy the rumor, sell the news. Quite often, this is the correct investment strategy. But how do you determine whether the news is more or less of a surprise as to what was anticipated? That can be easily determined by the Candlestick formed. This puts you days, sometimes weeks ahead of the rest of the investment community. A gap down at the bottom of a trend upon bad news may NOT be the time to buy. A black candle formation that day means something completely different than a white-bodied candle. Learning the ramifications of these occurrences can put huge profits in your pocket.

Where Do We Learn How To Invest?

Where did you learn how to invest? Where does anybody learn how to invest? There are no official courses taught to investors. In school, we are taught about the different investment vehicles and strategies. But there are very few forums for learning the actual psychology of a professional investor. Even if there were qualified investment education programs, teaching the emotional disciplines may be near-impossible. "Experience" is the major factor when becoming successful in most investment disciplines. Experience is the only education for developing a proper mental process. This is the most difficult hurdle for learning proficient investing practices.

Putting one's own money on the line creates new dynamics. Investing and love are in the same category. Despite the amount of logical reasoning, intellectual analysis, and preplanning that is involved in a decision involving either, emotion takes over as the dominant component. The power of investment discipline **can** be harnessed. Investment rationale, the foundation of Candlestick formations, is implemented in a sensible and logical methodology. With this knowledge, an investor, whether a beginner or vastly experienced, will become acquainted with the basics of investment logic put into a calculated implementation program.

Again, revisit the question: "Where do we learn how to invest?" Was there a point in your investment life where you decided to make a study of the most successful investment programs? If so, did you sit down and consciously investigate strategies and learn how to use specific trading philosophies? Unfortunately, most investors start their investment programs by having a little money to invest. Where do they turn for investment advice? A stockbroker, a banker, a parent, a friend, an investment newsletter service, or a multitude of sources that probably started out the same way they did. They are looking for somebody to direct them on where to find a good investment, not a good investment strategy.

Who do you turn to when you have permitted Fear to scare you out at the bottom or Greed suck you in at the top, AGAIN? Who do you blame when you sell out of your profitable positions too early because you are afraid they will pull back and turn into losses? Or you hang on to your losing positions as they ratchet down, each little up-tick giving you hope, but finally selling out at the bottom because the pain is too great? This syndrome is described as "eating like a bird and pooping like an elephant." Identifying the Candlestick signals puts you in control of your investment program. Emotion is eliminated. You will not have to "hope" that the last trade you just put on will work. Candlestick signals will put you in the position of feeling very confident that the vast majority of your investment positions will work. You will be able to sleep well every night. You will learn to quickly identify the trade that is not working, immediately liquidate it, then put those funds into the next position where the probabilities are greatly in your favor.

"Learn How to Fish"

Many people spend more time and energy on buying a car than in researching how to build their financial wealth. And there is a good explanation for that. The experience of buying a car, the haggling with salespeople, hoping that nobody finds out that you could have negotiated a \$600 better price for your car if you knew what you were doing, occurs every three, five, seven years. Buying a car, even finding out that you paid too much for it, has an end to the decision process. You own it, You paid too much for it. Too bad! Now life goes on.

Investments have a constant decision making aspect to it. Each day, week, month, or minute has the potential for decision requirements. The decision process required for producing good returns on your portfolio is a constant and "scrutinizable" activity. One that can have many embarrassing throwbacks: buying at the peak, selling out at the bottom, picking the wrong company in an industry, selling too early, or selling too late. Without the use of a definable

investment strategy, most investors go through life "hoping" that their investment decisions are going to work out. They had no game plan for going in. They usually have no game plan for exiting. Fortunately, the market, in general, has "raised all boats" over the years. The Candlestick signals work equally well on both sides of a trade. They are as accurate for showing when "selling" is coming into a stock price as it is for demonstrating "buying" coming into a position. This increases the investor's control over their entry and exit strategies.

Human Emotion

Why do most investors repeatedly make the same trade mistakes? That great bugaboo **EMOTION**. Investment logic and investment emotions create a vast decision-making divergence. This is the area that Japanese Candlesticks can greatly expand your profitability. Have you ever analyzed a stock situation, whether fundamentally or technically, and planned your entrance and exit strategies thoroughly before putting on the trade? Then once the trade is on, the circumstances that you analyzed occur. But all the preplanning for the establishment of the trade now disappear. You don't follow through with your game plan. WHY? A very common occurrence with many investors. This phenomenon is easily explained but hard to overcome. The Candlestick method of investing has inherent attributes that eliminate emotions.

Human ego! We all think we are intelligent. We analyze an investment situation and put our stamp of intellectual prowess on the line. Buying a stock position immediately declares that with the same investment criteria that is available to everybody else, we have made a statement, subconsciously, that our analytical abilities are better than the average investor. Of course, when a stock price moves against us, that is just a temporary misreading of the "obvious" market factors by the rest of the market participants. As a trade goes further against us, the more out of whack our investment decision-making process becomes. The inherent aspects of Japanese Candlesticks eliminate this whole problem forever.

You can now take control of your own investment future. All the necessities required for profitable investing are built into Candlestick signals. You will be amazed at how the signals provide a clear depiction of what is occurring in a trading entity despite what rhetoric is being touted through the news media. You will be able to see the truth, the actual sentiment of investors. Accurate buying and selling signals allow you to formulate high profit trading programs. Your investment decisions will parallel those of experienced professional investors. Whether a beginning investor, a professional trader, male, female, executive, or blue collar worker, the identification of Japanese Candlesticks puts you on the same playing field as the most proficient investors in the markets.

You can amass a fortune in the market. You have the tools available to you. Identifying profitable trades, reducing downside risk, proven results, built-in discipline, logic, common sense, and putting the probabilities completely in your favor; all the benefits that investors crave for in an investment program is incorporated in the most powerful trading methodology –

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Be sure to visit our website at <http://www.candlestickforum.com>